G.R.S. 58J

Previous references.

G.F 289-19-164

Later references.

1924
(G.F.)

File No. G.F 108-24

Serial Nos. 1 to 2

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. 2

(P) 16/6

Part B for March 1925

SUBJECT

Calls for the opinion of the Govt of Mysore in regard to the policy of Govt to be adopted for dealing between Indian States, Capitalists and Financial Agents.

Secs. 2. To. The Secretary to the Hon'ble the British Resident in Mysore

P.R. 768 of 9.3.25

Conveys the views of the Govt of Mysore in regard to the policy of Govt to be adopted for dealing between Indian States, Capitalists & Financial agents, as desired by the Resident.

B170

M 9/4

Serial No.

1)

From The Secretary to the Resident
Ad St. No 461 dated 20th January 1925
67-1891
Calls for the opinion of the Govt of Mysore in regard to the policy of Govt to be adopted for dealing between Indian states, Capitalists and financial Agents.

V Asst Secy's order on the P.W.D.

Please put up today the papers relating to the floatation of the 6% loan in which it has been discussed and considered unnecessary to obtain the Govt of India sanction their public loans

Printed papers relating to the 6% loan into mark 24/1/25 of 1920. are put up. Kind reference is invited to the correspondence on pages 37-45 of the Collection — Nos (220 & 226), and portion marked as page 41.

Subd Noted 21.1.25

In the attached letter from the Residency dated 20th January 1925, our opinion is asked for in regard to the proposed provisions ~~in regard~~ about "dealings between Indian States, Capitalists and financial agents". A statement is appended in which the proposals, the opinions we may express, and the reasons on which the opinions are based, are shown in juxta-position. The answers that I have proposed are from the point of view of Mysore and not with reference to Indian States in general. I am not sure

NOTE—Contn. Sheet

if

if we need express any opinion at all on the general side of the proposal.

D E W A N.)

Serial No. [illegible] FICE
RECEIVED 4 FEB 1925
Reg. No. 5655

Mull 3.2.25

To Chief Secretary with Compts
mad 10/2

11.2.25

I agree generally with the views expressed by the Hon Secy
JS 11/2

Proposal.	Opinion.	Remarks.
1. It is very desirable in the interests of the Government of India and in its own interests that a State intending to issue a public loan should give information beforehand of its intention to do so, in order to avoid the possibility of such loan clashing with similar operations by the Government of India, and so as to give the Government of India an opportunity of offering friendly advice on the subject.	The Government of Mysore consider that no notice of an issue of a public loan open only to subscribers within the State or of an issue to which subscriptions in British India are invited when no loan of the Government of India is on offer at the time, need be given to the Government of India.	We have already asserted our right to float loans within the State without the consent of, or consultation with, the Government of India: vide our letter No.150 dated 13th August 1920. For accepting subscriptions from British India when no loan of the Government of India is on offer, I do not think it should be necessary to obtain the approval of that Government. It is well to be freed from this restriction. Joint Stock Companies have full freedom to make capital issues whenever they like, even when a Government of India loan is advertised for subscription. I can understand the Government of India preventing Local Governments from entering the money market in competition with ~~them~~, as their relations are very close and the Central Government, as a general rule, accommodates

accommodates the Local Governments and gives them the benefit of the cheap capital funds it is capable of raising. To apply the same rule in regard to Indian States is not quite fair. Should the Government of India insist upon imposing restrictions, it is only reasonable that they should accept the reciprocal obligation of lending us on the same terms as they do to Provincial Governments. Whether Indian States avail themselves of such provision or not, sometimes it may not be desirable to borrow from the Government of India.

What is stated in the first sentence is the existing position according to Section 125 of the Government of India Act. This Section prohibits British subjects from lending to Ruling Princes and Chiefs but does not prevent the latter

(2) Loans to Ruling Princes and Chiefs by European British subjects without the previous consent in writing of the Secretary of State in Council or of the Governor-General in Council or of a Local Government are forbidden by Section 125 of the Government of India Act, The previous concurrence of

The term 'transactions' is too vague and it may apply even to ordinary business by way of sales and purchases of materials and the connected

the Government of India is required by States entering into transactions with alien persons or firms.

banking arrangements for payments and remittances. The restrictions contained in the second sentence is ~~therefore~~ unnecessarily wide.

from borrowing. This part of the proposal need not, I think, be commented upon by us. The restriction sought to be imposed by the second sentence is sweeping and it may easily give a handle to the Government of India to interfere in the internal economy of ~~the~~ States.

3. Inter-statal loans or loans by one Ruler to another require the consent of the Government of India, and where such a loan is made without such consent, it will be at the lender's own risk and Government will not ordinarily intervene to secure its repayments.

The Government of Mysore consider these proposals reasonable.

This proposal is, I think a desriable one, though it may be construed as interfering with the freedom of States.

4. The acceptance of a directership in a company in British India by a Ruling Prince or Chief is considered undesirable and derogatory to the position of Indian Princes. This principle does not, however, apply to the case of an official of an Indian State representing the State on the Board of Directors.

This proposal does not call for remarks.

9

3.2.25

C308

SUBJECT:- 2

Communication from the Residency calling for the opinion of the Mysore Government in regard to the proposed provisions about "Dealings between Indian States and Capitalists and Financial Agents."

OPINION OF THE COUNCIL.

A draft reply ~~note~~ may be put up in accordance with the opinion of the Fl Secy. & circulated.

hm
26.2.25

1) Financial Secy. with Compliments

Draft placed below.

hm
26.2.25

2) Chief Secy with Compts
Gmch
26.2.25

3) Subd by 1st & 2nd members

hm
27.2.25

4) Seen
Lee

27/2
hm

DSP put up
Dewan

Gmch
27.2.25

7

(For Disposal at a Meeting)

No. C. 308
of 1924-25

GENERAL AND REVENUE SECRETARIAT.

Council Matter.

SUBJECT.

(Clause xii of the schedule.)

Communication from the Residency calling for the opinion of the Mysore Government in regard to the proposed provisions about "Dealings between Indian States and Capitalists and Financial Agents."

CIRCULATED TO THE MEMBERS OF COUNCIL.

By Order,

13th February 1925. Offg. *Chief Secretary to Government.*

Extraordinary Member of Council.

6620 6/2/25
13·2·25

First Member of Council.

Second Member of Council. 21/2/25

Third Member of Council.

Submitted to His Highness.

...

15 In the Residency letter No.461/67-1891 dated 20th January 1925, our views in regard to the modifications approved by the Chamber of Princes in the policy of the Government of India on the subject of "Dealings between Indian States and Capitalists and Financial Agents" have been asked for. This matter was considered on 26th February 1925 by the Council which was of opinion that the reply, as in the draft put up, may be sent. I request the gracious approval of His Highness to the issue of the reply.

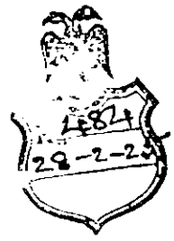
Bangalore,)
28th Feb.'25).

Officiating Dewan.

S.N.

Record of Cases submitted for the Orders of His Highness the Maharaja.

Subject.



Draft letter to the Residency conveying the views of the Government of Mysore in the matter of dealings between Indian States and Capitalists and Financial Agents.

588

Order.

17 ~~KRW~~

2/3/25

18 Finance Minister

3/3

[G. R. S. III-2]

General and Revenue Secretariat.

File No. of 192. C 308

Serial No.

19 Draft letter to the Residency Conveying the views of the Govt. of Mysore in the matter of dealings between Indian States and Capitalists and Financial Agents.

(*)

31. All urgent or confidential files returned with His Highness' orders may, in the absence of instructions or indications to the contrary, be ordinarily circulated to the Members of Council for perusal after the issue of orders.

33. The Secretaries concerned should see that orders in the cases referred to above are issued at once and that the files are returned immediately after to the Chief Secretary for circulation to the Members.

34. In all other cases, the files will first be circulated to the Members of Council at headquarters and then sent to the Secretariat concerned for the issue of orders.

Circulated to the Members of Council for perusal of *

His Highness' orders $\frac{\text{before}}{\text{after}}$ issue of orders. (*Vide* Rules 31, 33 and 34 of the Subsidiary Rules for the conduct of business of Council in the Manual of Council Rules and Procedure.)

V Ramaswamy Iyer
Chief Secretary to Govt.

Through the Secretary to Government,

.....Department.

77/3-3 FIRST MEMBER OF COUNCIL. 3/3

7023/4/3 SECOND MEMBER OF COUNCIL. 4/3

THIRD MEMBER OF COUNCIL.

Financial Secy, with Comps.

NOTE—Contn. sheet.

Mono WD 1335—GPB—500—16-1-23.

Please See Dewan's order dt. 5.3.25 Mysore 5/3/25 3/3/25 Dec to it the letter has appeared to issue from Chief Secy

...eral and Revenue Secretariat. | File No. 4556 of 19 . C 308 | 11

Serial No.

2 The letter of the Residency is addressed to the Pl Secy to Govt and the whole matter has been dealt with in the Pl. Sects. Instructions are requested whether the reply for may issue from the Pl. or the Chief Sects.

Dewan). 23 Pl-vide ante 5-3-25.

6/3

3 If the Pl. Secy thinks the reply may issue from the Ch. Sects, this will certainly be done.

7-3-25.

4 I have no objection to issue it from Finance Dept. I have signed the fair copy and issued it. Forwarded to the Chief Secy with Compts for information.

7.3.25

5 No: Pol: 768 D 9.3.25, to the Secy. to the Resident conveys the views of the Government as desired by the Residency.

13.3.25 To Chief Sects with Compts

14/3/25

To the Secy to the Resident
No Pol-768 D. 9-3-25
In the opinion of the undersigned
proposed provision is adequate
dealing between Income
Rates & Corporation Finance
Agents

16/3

15/3/25

NOTE—Contn. Sheet.

18/3/25

F.7.08.24-1

All communications should be addressed to the Secretary to the Resident in Mysore, Bangalore, by designation and not by name.

No. 461 Enc. 1
67-1891.

FROM

A. N. L. Cater, Esq., I.C.S.,
SECRETARY TO THE RESIDENT IN MYSORE.

To

The Financial Secretary to the Government of
His Highness the Maharaja of Mysore.

Dated Bangalore, 20th January *1925*.

Subject.

DEALINGS BETWEEN INDIAN STATES AND CAPITALISTS AND FINANCIAL AGENTS.

SIR,

I am directed to address you regarding dealings between Indian States and Capitalists or Financial Agents.

2. A summary of the existing policy of the Government of India in the matter was laid before the Committee of Princes which met at Delhi in January 1920, and they recommend certain modifications in the policy and suggested that if their recommendations were accepted, Section 125 of the Government of India Act should be repealed in accordance therewith. These suggestions were considered and the Government of India accepted in the main the policy advocated by the Princes, but certain suggestions on minor points were made on which it was necessary to obtain the opinion of the Committee. The matter was accordingly laid before the Standing Committee of the Chamber of Princes at their meeting on the 4th April 1921 and as a result of the discussions they drew up a revised summary. This summary, as further revised by the Government of India after consultation with Local Governments and Political Officers, was placed before the Standing Committee of the Chamber of Princes at their meeting

in

13

in January 1924 (vide column IV of the statement attached) with a digest of the opinions received.

3. The conclusions arrived at by the Standing Committee as to what they consider the future policy of Government should be, as shown in Column V of the Statement, were presented to and approved generally by the Chamber of Princes at its recent session.

4. I am to request that the Government of Mysore will be so good as to favour the Resident with their views on the revised Summary (Column V of the Statement) at an early date for communication to the Government of India. Should no reply be received within three months of the date of this letter, it will be assumed that the Mysore Government have no criticisms to offer.

I have the honour to be,

Sir,

Your most obedient servant,

SECRETARY TO THE RESIDENT.

BJ

I

ORIGINAL SUMMARY AS PREPARED BY THE FOREIGN AND POLITICAL DEPARTMENT.

The existing orders requiring that negotiations between States and capitalists or financial agents should be conducted through the medium of the Government of India are based upon an Act of Parliament of the 20th July 1797 (37 Geo. III), which recites that the practice of British subjects lending money to Indian Princes has been productive of mischief and the source of extortion, and declares that British subject may lend money to, or be concerned in raising money for Indian Princes without the consent of the British Indian authorities, and that any person so doing may be prosecuted for misdemeanour. This Act is still in force.

2. By the orders of 1891 direct dealings between Indian States and capitalists or financial agents were prohibited, and it was laid down that when a State decides upon an undertaking the prosecution of which necessitates a financial arrangement with capitalists, the Government of India would, on behalf of the State concerned, negotiate and conclude with such capitalists the necessary instrument for giving effect to the financial arrangement. It was further explained in 1893 that the sanction of the Government of India is not ordinarily required to the establishment of a factory in a State by subjects of the State, but if the projectors are British subjects or Europeans, a reference should be made to the Government of India.

3. In recent practice, however, the prohibitive orders of 1891 have been liberally interpreted, and in the case of highly organised States of known financial stability, the Government of India now merely require to be informed beforehand of the intention of a Darbar to conclude an important financial arrangement with an outside capitalist or financial agent in order to be in a position to offer any friendly advice that may appear to be necessary. They think it desirable that such previous intimation should invariably be made in order to minimise the possibility of States entering into transactions which would be harmful both to the particular State and to India at large.

GCP Delhi—L XI-395—11-9-24—750.

II

SUMMARY AMENDED IN THE MANNER SUGGESTED BY THE PERMANENT COMMITTEE OF PRINCES AT THEIR MEETING HELD ON THE 26TH JANUARY 1920.

1. In the event of an Indian State proposing to issue a public loan or to enter into any financial transaction involving the borrowing of a large sum from any individual or concern other than an Indian or a concern owned wholly by Indians, the Government of India should be informed beforehand, and an opportunity afforded to them, whenever possible, of offering friendly advice on the subject. This will not apply to the case of short loans for temporary purposes only from banks recognised for this purpose by the Government of India.

2. The Committee suggest that if this recommendation is generally accepted, section 125 of the Government of India Act might be repealed or modified in accordance with their recommendation.

3. The Committee consider that there is no necessity for any general restrictions upon Indian States in respect of lending or investing money outside the State.

4. The recommendation in paragraph 1 is made on the understanding that States will not be precluded from issuing public loans in India at convenient seasons.

5. The Committee consider that it will be in the mutual interests of both the Government of India and the States if early information is given to the Government of India when any new business of an important character has been opened in the State.

II

SUMMARY AMENDED
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amendment to conform

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Note.—His Highness the
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directorship in a Company
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nciple does not, however,
fficial of an Indian State
the Board of Directors of
e State in question is

haraja of Gwalior had doubts
paragraph 5 of the Summary.

IV

SUMMARY AMENDED BY THE GOVERNMENT OF INDIA AFTER CONSULTATION WITH LOCAL GOVERNMENTS AND POLITICAL OFFICERS.

1. The States agree in the interests of the Government of India and in their own interests to give information beforehand, of the intention to issue a public loan so as to avoid the possibility of such loan clashing with similar operations by the Government of India and so as to give the Government of India an opportunity of offering friendly advice on the subject.

2. Loans to Ruling Princes and Chiefs by European British subjects without the previous consent in writing of the Governor-General in Council or of a local Government are forbidden by Section 125 of the Government of India Act. The previous concurrence of the Government of India is required before States enter into transactions with alien persons or firms.

3. Inter-statal loans or loans by one Ruler to another require the consent of the Government of India.

4. It is in the mutual interests of the States and of the Government of India that the latter should be given an early information when any new business of an important character has been opened in a State.

5. The acceptance of a Directorship in a Company in British India by a Ruling Prince or Chief is considered undesirable and derogatory to the position of Indian Princes. This principle does not, however, apply to the case of an official of an Indian State representing the State on the Board of Directors of an enterprise in which the State in question is interested.

V

SUMMARY AMENDED BY THE STANDING COMMITTEE OF THE CHAMBER OF PRINCES ON THE 16TH AND 17TH JANUARY 1924.

1. It is very desirable in the interests of the Government of India and in its own interests that a State intending to issue a public loan should give information beforehand of its intention to do so, in order to avoid the possibility of such loan clashing with similar operations by the Government of India, and so as to give the Government of India an opportunity of offering friendly advice on the subject.

2. Loans to Ruling Princes and Chiefs by European British subjects without the previous consent in writing of the **Secretary of State in Council** or of the Governor-General in Council or of a Local Government are forbidden by Section 125 of the Government of India Act. The previous concurrence of the Government of India is required by States entering into transactions with alien persons or firms.

3. Inter-statal loans or loans by one Ruler to another require the consent of the Government of India, **and where such a loan is made without such consent, it will be at the lender's own risk and Government will not ordinarily intervene to secure its repayment.**

4. The acceptance of a directorship in a company in British India by a Ruling Prince or Chief is considered undesirable and derogatory to the position of Indian Princes. This principle does not, however, apply to the case of an official of an Indian State representing the State on the Board of Directors.

15

Pol. 768 29/3/25

G.F. 108-24-2

Draft.

To

The Secretary to the Hon'ble
the Resident in Mysore, Bangalore,

Sir,

With reference to your letter No.461/67-1891 dated 20th January 1925 regarding "Dealings between Indian States and Capitalists and Financial Agents" I am directed to note below the views of the Government of Mysore on the revised summary (column 5 of the statement sent with your letter.)

For facility of reference, the several proposals included in the summary and the views of the Government of Mysore on them are shown in juxta-position below:-

I have etc.,

Financial Secretary
to Govt.

Proposals.	Views.
1. It is very desirable in the interests of the Government of India and in its own interests that a State intending to issue a public loan should give information beforehand of its intention to do so, in order to avoid the possibility of such loan ~~xx~~ clashing with similar operations by the Government of India, and so as to give the Government of India an opportunity of offering friendly advice on the subject.	The Government of Mysore consider that no notice of an issue of a public loan open only to subscribers within the State or of an issue to which subscriptions in British India are invited when no loan of the Government of India is on offer at the time, need be given to the Government of India.

P.T.O

~~Proposals.~~

~~Views.~~

2. Loans to Ruling Princes and Chiefs by European British subjects without the previous consent in writing of the Secretary of State in Council or of the Governor-General in Council or of a Local Government are forbidden by Section 125 of the Government of India Act. The previous concurrence of the Government of India is required by States entering into transactions with alien persons or firms.

The term "transactions" is too vague and it may apply even to ordinary business by way of sales and purchases of materials and the connected banking arrangements for payments and remittances. The restriction contained in the second sentence is unnecessarily wide.

3. Inter-statal loans or loans by one Ruler to another require the consent of the Government of India, and where such a loan is made without such consent, it will be at the lender's own risk and Government will not ordinarily intervene to secure its repayment.

4. The acceptance of a directorship in a company in British India by a Ruling Prince or Chief is considered undesirable and derogatory to the position of Indian Princes. This principle does not, however, apply to the case of an official of an Indian State representing the State on the Board of Directors.

The Government of Mysore consider these proposals reasonable.

I have etc.

Mull 26.2.25

Financial Secretary to Govt.